MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2022/2023 (TERM ID 2215)

BAC1644 – PRINCIPLES OF FINANCE

(All Sections / Groups)

22 FEBRUARY 2023
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 5 pages with 5 questions.
2. Write your answers in the answer booklet provided.
3. Answer ALL questions.

QUESTION 1

Part A

(a) For the year 2021, Chicky Enterprises had sales of RM689,000, cost of goods sold of RM492,300, depreciation expense of RM61,200, balance of retained earnings after dividend payment is RM48,560 and dividends per share of RM2.18. There are 12,000 shares of ordinary shares outstanding, and the tax rate is 35 percent. What is the times interest earned ratio?

(8 marks)

(b) D-Max Company has a gross profit of RM298,900, operating expenses of RM85,200 a profit margin of 7.1%, and an accounts receivable balance of RM126,385. Assuming 65 percent of sales are on credit, what is the company's days' sales in receivables?

(6 marks)

Part B

Rirossa Company reported a return on assets of 10%, a profit margin of 8.5% and return on equity of 15%.

Required

(a) Calculate the company's total asset turnover.

(3 marks)

(b) What is the equity multiplier?

(3 marks)

(Total: 20 marks)

QUESTION 2

Part A

Assume you can save RM8,500 at the end of Year 2, RM9,300 at the end of Year 3, and RM7,100 at the end of Year 6. If today is Year 0, what is the future value of your savings 10 years from now if the rate of return is 7.8 percent annually?

(4 marks)

Continued...

Part B

A company needs to raise RM22 million and plans to issue 20-year bonds for this purpose. The required rate of return is 7.6 percent in the current market. The company has two issue alternatives: a 7.6 percent coupon and a Zero-coupon bond. The company's tax rate is 34 percent. At bond maturity, how much will the company need to pay to its bondholders if it issues the coupon bonds? What if it issues the zeros? Assume semiannual compounding for both bond issues. (For simplicity's sake, assume the company can issue a partial bond.)

(6 marks)

Part C

Suppose you borrow RM85,000 from Rich Bank with an interest rate of 12% per year. You are going to repay the loan by making an equal annual payment for 6 years.

Required

Prepare an amortization schedule for the loan. How much is the payment of interest for the fourth year?

(10 marks)

(Total: 20 marks)

QUESTION 3

Part A

Bayview Berhad has budgeted sales revenues as follows:

	June	July	August
Credit sales	RM135,000	RM125,000	RM 90,000
Cash sales	90,000	255,000	195,000
Total sales	RM225,000	RM380,000	RM285,000

Past experience indicates that 60% of the credit sales will be collected in the month of sale and the remaining 40% will be collected in the following month. Purchases of inventory are all on credit and 50% is paid in the month of purchase and 50% in the month following purchase. Budgeted inventory purchases are:

June	RM300,000
July	240,000
August	105,000

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Other cash disbursements (expenses) budgeted: (a) selling and administrative expenses of RM48,000 each month, (b) dividends of RM103,000 will be paid in July, and (c) purchase of equipment in August for RM30,000 cash.

Required

Prepare separate schedules for expected collections from customers and expected payments for the months of July and August.

(9 marks)

Part B

Asadi Footwear purchases 50,000 pair of shoes for its annual requirement and each pair of shoes cost is RM40. The ordering cost per order is RM25 and the inventory holding charges is 10% of unit cost per year. If the maximum quantity that can be ordered at a time is 600 pairs, what will be the minimum total inventory cost?

(5 marks)

Part C

Prima Vally Berhad offers its employees an optional two-month unpaid vacation after 7 years of service to the company. Ruby, who just started working for the company, plans to spend her vacation touring Europe at an estimated cost of RM24,000. To finance her trip, Ruby plans to make an annual deposit of RM2,500 into a savings account at the end of each of the next seven years (the first deposit will occur one year from today). The account pays 8% annual interest.

(a) Will Ruby's account balance in seven years be enough to pay for her trip?

(3 marks)

(b) Suppose Ruby increases her annual deposit to RM2,700. How large will her account balance be in seven years?

(3 marks)

(Total: 20 marks)

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QUESTION 4

Ryan Berhad intends to invest in an international investment project. There are two (2) details available but due to limitation of capital, Ryan Bhd should choose only one (1) project. Given below are the details for both projects, should it accept either one of them.

Year	Cash Flow (Project A) (RM)	Cash Flow (Project B) (RM)
0	-50,000	-70,000
1	30,000	9,000
2	18,000	25,000
3	10,000	35,000
4	5,000	50,000

(a) What is the Net Present Value (NPV), Internal Rate of Return (IRR), and Profitability Index (PI) for both projects if the required rate of return is 10%. Which project should Ryan Berhad choose based on NPV, IRR and PI?

(12 marks)

(b) What is the payback period for both projects. If Ryan imposes payback cutoff of three (3) years, which project should be accepted?

(6.5 marks)

(c) Which project should the company accept and justify your answer?

(1.5 marks)

(Total: 20 marks)

QUESTION 5

Part A

Cinemax Berhad has just paid a cash dividend of RM8 per share. Investors require a 20 percent return from investments. Dividend is expected to grow at a constant rate of 10 percent per year.

(a) What is the current value of the stock?

(3 marks)

(b) What will the stock be worth in ten (10) years?

(3 marks)

(c) What would stock of Cinemax Berhad sell for today if the growth rate expected to grow at 30 percent per year for the next five (5) years and then constant to 10 percent per year indefinitely? (Assume that just paid dividend and required rate of return are same).

(9 marks)

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Part B

Animax Berhad has a beta of 0.8. The market risk premium is 8 percent and risk-free rate is 9 percent. Animax Berhad has just paid a dividend of RM2 per share and the dividend is expected to grow at 8 percent indefinitely. The stock currently sells for RM30.

(a) What is the cost of equity if the company uses Security Market Line (SML) method?

(2 marks)

(b) What is the cost of equity if the company uses dividend growth method?

(2 marks)

(c) What is the cost of equity?

(1 mark)

(Total: 20 marks)

End of Paper